



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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TO: Agency Budget Officers

FROM: Candace Espeseth
Assistant Director, Budget Division

SUBJECT: BUDGETING REQUIREMENTS FOR AGENCY SELF INSURANCE PREMIUMS IN THE 2005-07 BIENNIUM

The Risk Management Task Force's strategy to increase the visibility for risk financing will be continued this biennium through the 2005-07 Budget process. Specifically, agency changes in self-insurance premiums will be a distinct line item in the maintenance level of the 2005-07 Budget. Agencies must prepare maintenance level decision packages that address agency strategies to mitigate future losses.

The state's projected outstanding claims liability drives statewide self-insurance biennial funding levels. A recent actuarial report indicates that the state's total outstanding claims liability as of the end of the next biennium will be \$446,942,173 million dollars. This is a \$55 million reduction from the amount estimated last year, in part due to the excellent work being done by agencies to manage their risk.

The self insurance premium for the 2005-07 biennium will need to include funding that will be sufficient to pay the actual amount of the claims and defense costs that will be due during the biennium. In addition, it is necessary to retain a portion of the premiums to serve as a reserve. The reserve amount sets aside funds for the future payment of costs related to current day operations. It also ensures that the state has sufficient dollars to pay actual claims and defense costs if they exceed actuarial projections. Agencies paid \$149,842,074 million in self-insurance premiums during the 2003-05 biennium. The current assumption is that this level of funding will be sufficient in the 2005-07 biennium to cover projected claims and defense costs and to maintain a small reserve.

Decision Package Required

Although the total level of self-insurance premium is remaining the same, there are changes in the amount that individual agencies pay into the fund. This is because the most recent individual agency loss trends have been taken into account when computing the amount due from each agency. In addition, a minimum premium of \$1,000 per year is being assessed. Agencies should prepare a maintenance level decision package for the amount of the change (increase or decrease) from the 2003-05 biennium to the 2005-07 biennium. Attachment 1 shows these amounts. Section 12, Operating Budget Instructions, Part 2, Decision Packages and Other Submittal Requirements, 2005-07 Biennium, explains the necessary elements to be included in the decision package.

June 11, 2004

Page 2

Risk Management Resources Available to Agencies

As you prepare the decision package, it is recommended that an agency review the Governor's Risk Management Executive Order 01-05, the agency's loss history profiles provided by the Office of Risk Management (ORM), the agency's pending claims, and ORM's web site at

<http://www.ofm.wa.gov/rmd/budget.htm>.

Throughout this process, the Office of Risk Management staff is available to assist you with interpreting loss trends and developing risk management goals. Your primary contact is OFM Loss Prevention Manager Jolene Bellows, 360-902-7312.

cc: John Nicholson, ORM